UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

ENRON ALL-EMPLOYEE MEETING

SLIDE PRESENTATION AND ADDRESS

KENNETH LAY AND JEFFREY SKILLING, CEO

PRESENTERS

February 21, 2001

Tape No. 836

MILLER REPORTING CO., INC.
735 8th STREET, S.E.
WASHINGTON, D.C. 20003-2802
(202) 546-6666

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

This transcript is the original transcript from Miller Reporting, except for the following clarifications and corrections made by the minority staff of the Committee on Government Reform: (1) pagination was added; (2) speaker identities were added where omitted or incorrectly identified; (3) misspellings of employee and project names were corrected; and (4) miscellaneous errors were corrected. Any corrections of omissions, misspellings, or errors are designated in **bold** type.

P R O C E E D I N G S

MR. LAY: Good morning. And we still have people coming in, and please come on in. There are plenty of seats down toward the front on both the left and the right side here.

But welcome to our all-employee meeting. I think this is the first time we've held one since about October. An awful lot's happened since October. The company has, of course, finished up an outstanding year by any measures, and of course, we're off to what we think will be another outstanding year.

So welcome all of you here in Houston, both in the room, as well as at your various work stations or offices.

Today by IP TV we have of course people viewing the meeting in Houston and Omaha, Portland, New York, Calgary, London, Stockholm, Hamburg, Amsterdam, Madrid, Toronto, Dublin--that's Ohio of course--

[Laughter.]

MR. LAY: But we may work on that other Dublin. And San Remo and Costa Mesa, California. But video conference in Chicago, Tehachapi, California, Sao Paolo, San

Juan, Warsaw, Chester--I don't know where Chester is. Where's Chester? Where is it? England, UK Okay, good. Tisod (ph), of course, UK Denver, Frankfurt and Pleasanton, California. So welcome to all of you. As I said, the company does continue to spread out and do a lot of business in a lot of places.

Now, let me say we do have some questions that have already been submitted. You will also have an opportunity to submit questions when we finish the presentation, and I think that has also been set up for many of you that are watching it remotely.

Today we're going to talk about financial results and market position, and I will give just a little introduction on those items. Then Jeff will pick it up. But we're going to talk about operating highlights. We're going to talk about some news that affects our employees directly. And then finally we are going to unveil this morning a new corporate vision, which is something that we seem to do about every 5 or 6 years, as we believe that we have sufficiently achieved our previous vision, that it's time again to expand our minds and move on to a new vision.

So I think you'll find it interesting, and of course we will have time for Q&A.

First a little history. The company has had a tremendous 10-year run. Last year our total return to our shareholders, about 89 percent, compared to 9 percent negative return on the S&P 500. Over the last 5 years we've outperformed the S&P 500 by about 2-1/2 times. The last 10 years by about 3-1/2 times. If you'd invested $100 back 10 years ago, you'd have about $1,500 today. So it's very superior performance for our shareholders compared to the S&P 500, but also compared to our peer group and basically any other comparison that you would like to make.

Of course causing that, or at least helping cause that shareholder return, strong growth in earnings per share. We, in fact, this past year had 25 percent increase in earnings per share to $1.47. Our after-tax net income was approximately $1.3 billion. And for the first time the company had revenue of over $100 billion.

Key messages we think, and this is the messages we shared with the analysts just a few weeks ago, Enron has built uniquely strong franchises with sustainable high-earnings power. These franchises can be significantly expanded, which I'll show you in a minute, within both existing markets, as we continue to capture more and more of those markets, but also by extending our business platform to new markets with enormous growth potential. And finally, Enron is laser-focused on increasing earnings per share. And we mean to do that both to absolutely increase the size of our earnings per share, but to significantly increase our capital efficiency.

Now, as many of you know, we have had for some time a contract to sell Portland General to Sierra Pacific. We still hope to close that this year. That has been wrapped up now somewhat in the California situation, creating some uncertainty, but our intent is to continue to sell off some of our asset-intensive reasonably low return businesses to redeploy that capital into our higher-return faster-growth businesses.

We did late last year reach agreement to sell some of our peaking plants, which we felt we no longer needed because liquidity was so great in the electricity markets in North America, and also to sell one of our intrastate pipelines, and we will bring in about $1-1/2 billion from those sales. It's also said that we're in the process of selling some of our international assets, particularly in the developing countries that are not totally strategic to our game plan going forward, and over the next year or so, we would expect the size of those sales to be significant.

If we look at these markets, again, the opportunity to expand Enron inside of our existing markets, and of course not even shown here are some of the new markets that we're moving into now, such as metals and pulp and paper and lumber, and so forth. But if we look at wholesale gas and power, which of course is our basic business, which we started late in the 1980s as far as our current business model, but that market, on a worldwide basis, taking into account also a multiplier effect of about 3 times, which means that you take the total size of the market, with the way the markets work and with all the services we provide, the true opportunity is about 3 times the absolute size of that market, but that's about a $1.7 trillion market.

Retail energy, and particular the energy outsourcing business, which is doing so well, and there we're looking just at North America and Europe, about a $765 billion business.

Broadband services, again, growing to probably a $500 billion or so absolute market within 5 years, with a multiplier effect about $1.4 trillion.

So Enron right today is in the sweet spot, and the sweet spot means that we're one of the largest if not the largest single player in these markets, about $3.9 trillion of total market value, and only about a quarter of that is currently opened up for competition, and we expect the rest of it to open up for competition over time. So tremendous growth potential for Enron and its strategies and its business model.

Well, you all did it again. Enron was jut recently chosen again, for the 6th year in a row, in the most-admired company survey by "Fortune" Magazine, at the most innovative company in America. I daresay that no company has ranked number one in any category six consecutive years in a row as we have in innovation, and that's due to all of the bright, creative, innovative people we have throughout the world, that are continuing to make markets better, make markets more efficient, make companies more efficient, make economies more efficient, but creating new ways, in fact, to make the markets work.

And just so you understand this particular survey, about 10,000 executives, directors and security analysts are surveyed across the country, about 1,000 US companies, the 1,000 largest US companies based on revenue are included in the survey. They bring it down to about 535 companies that are actually ranked in the survey. And in addition to being number one out of those 535 US companies in innovation, we ranked number two in quality of management, number five in quality of products and services, number 4 in employee talent, so single digits in every case. And overall, if you take the survey, we ranked about 18th overall in the total survey, compared to 36 last year. If you take strictly the quantitative part of the survey, which is the most objective part of the survey, we ranked number four.

So, again, congratulations to all of you, and thank all of you for making this possible.

[Applause.]

MR. LAY: Well deserved, well deserved.

And in my mind, you're the number one work force in the world, not number four, but indeed you are what makes it happen.

And now I would like to turn it over to your new Chief Executive Officer, Jeff Skilling.

[Applause.]

MR. SKILLING: Thanks, Ken. It's always a pleasure to be here, get everyone up to speed on what's going on in the company.

What I'm going to do is go through operating highlights, and I'm going to walk through each of the individual businesses and show you what's going on in those businesses. We've taken a number of these slides from our analyst presentation, so it think it's probably fair to say that--what's the old saying, not a discouraging word? So I will give you the line that we gave to the analysts, and then I'm also going to tell you a little bit about some of the challenges that we're facing in the businesses, because we've seen enormous environmental changes, businesses changes, business environment changes, in each of our businesses. We are moving very quickly to respond to some of those changes, and doing a great job at it, but I just want to share with you what some of those challenges are, because we do have some challenges as we move forward in time.

So I'm going to go through the operating highlights of the businesses, and then continue from there. I'm going to walk through all four of our businesses, transportation, distribution, wholesale services, retail energy and broadband services.

As Ken mentioned, there is an issue now with our Portland General sale. What happened is that we had a sale agreement with Sierra Pacific, which is headquartered in Nevada. Recently because of some of the problems in California, California energy problems, the legislature in California passed a law that said any utility in the State of California can no longer sell any generating assets that they have. Now, unfortunately, Sierra Pacific, which has about 1-1/2 million customers in Nevada, has 10,000 customers across the state border in California, and it looks like they are captured or part of this legislative change, which makes it impossible for them to sell any generating assets, which was how they were going to finance the purchase of Portland General.

So we're still working with them to see whether or not this is going to be a continuing problem, but it's the sort of thing that happens when markets change as quickly as the markets change in the markets that we operate within,

But the rest of the transportation and distribution business obviously is the pipeline network. Give you a quick update. The pipeline network continues to provide great returns, consistent earnings and cash flow. We have a strong competitive position with market expansion opportunities in virtually every single one of the pipeline networks that we operate. We increasingly have a market-oriented business approach, which we have to have, because that market is changing, it's becoming more market responsive, more determined by what's going on in the cash markets for natural gas, cash and forward markets for natural gas. And we are using technology to expand revenues and reduce costs.

Let me tell you a little bit about some of the growth opportunities. On Florida Gas the Phase 4 expansion, which is about 200 million cubic feet a day into Southwest Florida, should be complete this spring. And then we filed an application for a Phase 5 expansion, which will be an additional 400 million cubic feet a day. So the Florida system continues to expand, build its market presence.

Transwestern, it looks like there are going to be absolute shortages of natural gas in California over the next several months. We have filed an expansion plan on Transwestern to increase our capacity into California by about 150 million cubic feet a day, and I think it's the first expansion that's been filed since all of this started in California, which again shows you the value of moving quickly. Enron always has moved quickly.

Northern Natural Gas. It's been cold. It's been cold in the upper midwest. NNG, Northern achieved record market deliveries, which are up 25 percent from the previous year because it was very, very cold interested **[in the]** upper midwest.

And then Northern Border, we are expanding through acquisitions of some other pipeline systems to add into the

MLP, and so we see continued growth opportunities there.

But just strong performance from the pipes. They continue to have great return on invested capital, just a great system for the company. And part of the reason that they are as good as they are is continued emphasis on improving productivity within the system. This is an interesting chart. If you look at the change in the pipes from 1992, we've had a 28 percent increase in throughput, but we've had a 35 percent decline in employees and a 26 percent decline in operation expenses, and that's what you have to do in this kind of business. You have to be continually increasing throughput and reducing cost. And a big part of that is the application of technology.

And more recently the pipelines have been using EnronOnline to remarket temporarily--or market capacity, or remarket capacity that's available. Last year they did 48 separate transactions for capacity through EnronOnline, so it's a great new platform to help improve the efficiency of the pipeline system.

Cost reductions realized through automation, scheduling gas control improvements, which are increasing the flexibility that the customers have, and we're using dynamic modeling programs to maximize revenues and throughput at the lowest possible cost, but just a continuing great performance. This really is the bedrock, the cash flow and earnings bedrock that allows us to do all the things that we do in our other businesses around Enron, but just great performance during the year.

Wholesale business. Awesome performance. this is almost amazing. I think the analysts, when they look at the numbers, were just floored. The performance that we had in our wholesale business last year was, it was just astounding. It was excellent.

Physical volumes. You see we're up to 52 BCF equivalent per day, significant increase over 1999. That's a 59 percent increase in throughputs. And financial settlements, which are indicative of risk management products, products that help our customers manage price risk, almost doubling during the year. So just incredible, incredible volume performance.

The basis of all of this really is the network that we've established. This chart just give you a sense for all the different pieces of the network. We talk about an asset light strategy, and that is important, because we have to get our return on invested capital up, but we have an enormous investment in assets, in contract access to market places that create a network that is really unusually. No one in the marketplace has the type of network that we have for deliveries of energy products to our customers.

By product type, natural gas, our most mature business, was up 77 percent in physical volume, 77 percent. And this is unusual. If you look at all of the other players in the business, no one came even close to the growth that Enron achieved in natural gas during the year. In fact, I think the next highest was about a 15 percent increase, so 77 percent increase in physical deliveries, 52 percent increase in power. So our North American business is just extremely strong.

Europe. We continue to add to the capabilities in Europe. We are not **[now]** the only pan-European marketer and deliverer of natural gas and electricity. We continue to build this network, and I think over time it will have some of the same characteristics as the network in North America. Very, very flexible, very low cost, able to respond immediately to customer needs, but we continue to build the position in Europe. And the numbers in Europe are even more amazing than the numbers in North America. UK Gas, which was really our first market, up 107 percent physical deliveries. UK Power up 113 percent. Nordic Power up 148 percent. Continental Power, and this is the rest of the continent of Europe that is now opening up for competition, up 557 percent year over year. Just amazing, amazing growth.

The numbers in Europe now are getting to be very sizable. In fact, if you look at the total volumes that we're seeing in Europe, they're kind of similar to what we had in North America three or four years ago, so we're now at a real important stage of growth in Europe because it's big enough to make a big difference to the overall company, and we continue to see very, very strong growth. So Europe is going to be an important part of the business for a long time and is performing extremely well.

One new market. Just wanted to bring you up to date on Japan. The Japanese market is the second largest energy market. If you take the individual countries in Europe and just look at them country by country, the European market--I'm sorry--the Japanese market is the second largest energy market in the world behind the United States. If you take Europe together, then Japan becomes the third largest energy market, but it's an enormous market and it's starting to open up.

We have two things going on there. We are looking for merchant plant opportunities, opportunities to develop new power plants, and we have three, I guess four power plants currently in development in Japan, and those look very attractive, and they give us the leverage to begin opening markets and beginning to transact with the existing players in Japan.

But then in addition to that, we've started extensive marketing activities. We've, for the first time, started to transact in power contracts in Japan, and I think as this market opens up, this is going to be a very significant market for Enron in the future.

So geographically we're in great shape and we continue to expand, but we're also expanding in terms of products. As you all know, we are trying to apply this model of creating markets the way we created markets in natural gas, electricity and bandwidth, to a range of other products. And there are three big groupings right now: crude and crude products, coal and emissions trading and weather; then our whole metals, pulp, paper and lumber; and then steel and credit.

But we believe that we have a model, a market model that is unique, that will allow us to enter these marketplaces and provide a service to customers that they're not currently getting in those markets, which should allow us significant growth opportunities in the future.

So great geographic penetration, great expansion of those geographic franchises, looking to find ways to expand our business model into additional products. And then finally, layering technology on top of it to help accelerate the growth rates in these businesses.

EnronOnline last year just a stellar year, 548,000 transactions. Total gross notional value, that means total volume times price for products that were bought and sold,

$336 billion. Right now if you look at the numbers we're running at an average daily transaction rate of about 3,900 transactions, about $3 billion a day. We're up to 1,100 products, over 1,100 products are offered on EnronOnline, and typically in a typical day we have 3,000 customers logged on to EnronOnline, looking at prices and transacting.

Let me show you what these numbers look like in aggregate. This is pretty interesting. This chart shows total volumes of EnronOnline compared to all of the other electronic transaction platforms in gas and electricity added together. So the way of reading this is, in the fourth quarter of 2000 we did about 31 BCF equivalents. The total of all of the other systems that compete with us, all of them together, cumulatively, was 3.6. So we're almost 10 times as big as everybody else combined. This is just an amazing performance, and I think this puts us in a great position, going forward in time, to continue to add products, add liquidity to the marketplaces where we operate at low cost. This has been an absolute grand slam home run for Enron. EnronOnline has just been a tremendous engine for growth for the company over the least year.

So that's the wholesale business.

Retail business. This chart shows earnings performance for the retail business by quarter, going back to the first quarter of 1999. As you all remember, we have been investing in this business, really started investing in this business in 1996 and 1997 to build this business. We told the stock market analysts that we would go earnings positive in the fourth quarter of 1999, and you can see on this chart that we did what we said we were going to do, we went earnings positive the fourth quarter of 1999.

But to me this trajectory is important. We went from creating a business, investing to create a business, and you see the losses that we incurred while we were doing that prior to the fourth quarter of 1999, to finally the creation and acceleration of this business and the type of earnings performance and trajectory that we've seen subsequent to that. But this is a great new business for Enron, tremendous potential for the future.

We're projecting for the year 2001 more than a doubling of earnings. The 2000 number was $103 million, and the original target that we had shared with the analysts was

$50 million, so we over performed our original target, but we're targeting for the year 2001, $225 million of earnings. That's going to come from continued market penetration, continued contracting activity. This chart shows just the funnel of contracts that are in negotiation currently and how they're working through the system, and it compares to a number of different years. So the way you'd read this is in 1999 we had something like $37 billion of contracts that were in some form of negotiation. 19 billion of them we were in preliminary meetings with senior management of customers, $7 billion, we already had a confidentiality agreement executed, and $10 billion where the negotiation was conducted under an exclusive letter of intent. All of that activity led to $8.5 billion of signed contracts in 1999.

So if you look at 2001 and you look at the pipeline of transactions, pipeline of business, it looks like this: 44 billion in preliminaries, 26 billion under confidentiality agreements, and $30 billion under exclusive letters of intent. And we have set the target for next year, and share this with the equity analysts, $30 billion of new contracts. So I think that that is achievable and the work is progressing, and we're making progress on it.

Another area that's interesting, we created a metal **[middle]** market, retail marketing organization in the UK. We actually acquired a company, and then have been building that company since we acquired it back in, I think it was 1998, 1997, and we've had tremendous success here. This is a kind of a different business model that **[than what]** we're doing in North America. In North America it's outsourcing contracts, where we take over all of the energy activities for our customers. This is basically selling commodity to smaller customers, so these wed be typically commercial customers, a store, a franchise restaurant, that sort of thing. But number of customers went from 27,000 in 1999 to 134,000 last year. Total volumes of electricity up to 11 million megawatt hours I guess is what that is, and head count up to 188. So strong growth in this business, and we're starting to export this. This is called Enron Direct, is the name of the company in the UK. We're starting to do this also in some other countries in Europe, and in typical Enron innovative style, for example in Spain we decided to call it Enron Director **[Directo]**.

[Laughter.]

MR. SKILLING: That will knock us down a couple of notches in the "Fortune" survey next year, but--

[Laughter.]

MR. SKILLING: But we're expanding this to other countries in Europe, and I think it's got a tremendous future, and I think this is a business that has a lot of application in the US, particularly in the kind of context that we're seeing in California. So retail business in great shape.

And finally the bandwidth business. This chart just shows the status of the network at the end of 1999 versus the end of the year 2000. As you know, we need to get installed switches that allow us to move transmission between carriers, so that we can create a market for capacity for bandwidth. To do that we needed to install pooling points, we needed to start moving transactions, create intermediation transactions, and we needed to start moving content. And so we made progress against all of those. In the network itself we closed out the year with 25 pooling points. We told the analysts that we expected to have 13, but we're up to 25 in terms of actual throughput of intermediated bandwidth.

So this is the beginning to buy and sell bandwidth, and we use a term called DS3 months, but we had set a target for 5,000 DS3 months for the year, and we closed out the year at 5,200 DS3 months equivalent.

And then we also told them we were going to start entering into contracts for content delivery, where we would be delivering content to customers, and the total contract value that was entered into in the year was over a billion dollars, and that's primarily the Blockbuster transaction, but a number of other customers, but about a billion dollars of future content delivery for customers. So tremendous progress against all of those dimensions.

The network, for all intents and purposes now pretty much installed and workable. This chart shows where all the pooling points are, and what we're targeting for next year. We'll add another 10 next year. But that will give us pretty much all the switching capacity we need to move between various carriers.

Blockbuster, we're moving forward on Blockbuster. This is where we're providing a full turnkey service to provide the bandwidth to Blockbuster to deliver movies, video-on-demand to their customers, and it's been a major undertaking, but an undertaking that's been very successful. This chart just shows what's been done in a relatively short period of time, from the signing of the contract to actual commercial launch and delivery of movies across our network. We are not **[now]** delivering movies in four cities: Seattle, Portland, Salt Lake City and New York. These are initial launch markets where we're testing out the technology, and the technology works, and the quality is great, and the customers like it. So we've made a lot of progress in this market, and a lot of progress in general in our bandwidth business.

And I mentioned to you I'd tell you what some of the challenges were, and I'll do that before I move on to the next part of the presentation. If you go through each of the businesses--I'll just give you just a quick sense of what I think some of the issues are that we're facing--in the transportation distribution, we need to figure out how we execute this transaction for Portland General, and we've got to make that happen because we need to improve our return on capital employed, so we need to begin liquidating assets that are earning less than some of the opportunities to reinvest those assets have. So in transportation and distribution, big challenge this year is we have to get that transaction done.

Wholesale services. Basically the same sort of challenge. We have an enormous, enormous investment in physical assets, primarily in developing countries, that is not earning a compensatory rate of return, and we have got to get that cash recycled into our businesses, so that we can grow our businesses quickly in those areas where we are earning high rates of return. It is a significant number. If you take all of those assets and you add to it Azurix, which we are bringing back into the company, cumulatively we've invested about $8.7 billion in assets that are earning something under 3 percent. That is an enormous drain on the earning power of the company, and we have got to redeploy those resources, and it's not just the money, but it's people too. We've got to redeploy people, move them out of those areas into some of the faster-growing areas, so that we can get full value for our employees, give them good career opportunities and also get that capital redeployed in areas where we can earn a higher rate of return. That is critical.

And if you think of the other side of the wholesale business, as you've seen the numbers, the numbers are staggering in terms of growth and opportunities to expand. We have got to get capital and people redeployed out of those less than compensatory rate-of-return businesses into the good businesses because we have good growth opportunities, and the marketplace is expecting it. I've mentioned to you before, return on equity stinks as a company. We've got to get that number up. That's what will allow us to maintain our multiple, our price to earnings multiple.

Retail energy business. I think the retail energy business will undergo a lot of change this year. The changes that are going on in California are suggesting that it is going to be a much different environment in the future than it's been in the past. We are moving very fast. The team in our retail business has done a tremendous job in responding to some huge shifts in the marketplace, particularly in California, and we are way ahead of the power curve on that, but it's suggesting, I think, that there are tremendous new opportunities opening up, but also risks that we have to manage as we make that transition.

The new opportunities that open up will be commodity-type products that we can sell into marketplaces like California that have big commodity price problems. The risks are that we have a number of contracts, that when you completely change the regulatory structure of an entire marketplace, we have to understand exactly how that plays through all those contracts, and make sure that we are constantly on top of that in making the right decisions to mitigate any concerns or problems that we have in those contracts. And I feel very good about it. We are way ahead of the power curve on that, but it's going to be a continuing challenge because of just the enormous changes that are occurring in those marketplaces.

Broadband business. The general telecom market is melting down right now. It's just unbelievable the change that's occurred in the last year. One year ago the enthusiasm that people had for broadband and bandwidth applications was at a peak level and today it's probably through the floor, is probably the best way of describing it. It is a tough, tough market. People are stopping contracting in new business activities. There's a severe cash crunch in the industry because these companies are heavily leveraged and they're going to have a hard time working their way out of this. So I think the bandwidth business is going to go through an enormous change. I think our strategy is perfect for that change, but it's going to be a rocky road for the next couple of months as we figure out exactly how all of this sorts out in the marketplace.

But overall, I think the company is in great shape. Every single one of our businesses is exactly well positioned. We have a lot to do in each of those businesses, a lot of change that we're going to have to go through over the next several years, but I think we're in great shape. The company is in excellent shape for moving forward in the future.

So that's kind of an overview, and during the Q&A

if there are any other questions you'd like to ask about those sorts of issues, Ken and I would be happy to, happy to address them.

Let me go into the news that affects you, a couple of things. Values. I think we've made progress during the year on our values. A number of things happened. As you know, we've created "The Pulse," which is really our survey, our employee survey, so it's changed from what we called ETC before into "The Pulse." We got fast turnaround on employee surveys, we have turnaround faster than we've ever had before. And we are able to take, I think, quick action on a number of issues that people pointed out to us. We will continue those surveys because they give us information about how things are going on with you all, and it makes it possible for us to make changes that help you, so we're going to continue that, and I think we've made a lot of progress last year.

Best companies to work for in America, we moved up from number 22 to number 24, to number 22 from number 24. I'm sorry. I had it backwards. We weren't going backwards. We were going forward.

The Chairman's Award. We had 450 nominations last year versus 250 in 1999. I think that shows a lot of interest from all of us in the Chairman's Award, and I think we identified some really outstanding people around the company that have done some very, very interesting things that are supportive of the values of Enron Corporation.

And we launched a global communications campaign, Diversity. We've got the core theme down now. Diversity equals innovation equals increased value. We believe that. Diversity creates new ideas. New ideas creates innovation. Innovation creates direct value for our shareholders. It's not what you think, it's what you think.

We've conducted surveys and focus groups with employees about their views on diversity, and we've implemented a communications campaign around the whole issue of expanded or the expanded view of diversity. So we're making progress on the values. We'll again answer any questions on those as we go into the Q&A session.

But let me tell you what we're trying to do for next year. A couple of plans for the future. We're combining the diversity and values efforts into one task force, and Ken has agreed to chair that effort, so that should move us forward. We're continuing to communicate key vision and values and diversity efforts across the company. We're continuing to conduct focus groups and we're doing the surveys so that we can find out what you all think and things that we need to change.

I will also tell you that the e-mail address that Ken and I have that people can send in whatever they want, they can do it anonymously, whatever, can send in information, has been very helpful to me. We probably get two or three a day that people are concerned about or interested in. We appreciate that. Please continue that communication.

And then we're supplying **[supporting]** the business units and applying the visions and values and diversity programs within their organizations. So I think we're making progress here. Can always do more, but I think we're making progress.

And then finally, Click-at-Home, just for your information, let's see, as you know, what Click-at-Home, we're going to be providing everyone with high-end Dell computers and Internet connectivity, so that people can get hooked into the system and use the computers and have the computers. Let's see, 3,000 US employees have already participated in the pilot programs and we have gotten good reviews. There will be 15,000 eligible employees worldwide, 10,000 of those in the US. So the eligible non-US countries will start participating in late 2001 or early 2000, and we're starting right now.

MS. : [Inaudible]?

MR. SKILLING: March 6th. So for the domestic offices and domestic employees, starting March 6th, we'll start passing out computers. You can order them. I'm sorry. We don't pass them out. You can order them.

[Laughter.]

MR. SKILLING: That's great. So we're making great progress with Click-at-Home. Any comments you have on this would be much appreciated as well.

So that's all of that.

Let me move now to the last item for the meeting, and that's the vision for the year 2001. We believe--and I think most of you would agree--that we have outgrown our current vision. We set it up--the last vision we had was to become the world's leading energy company, and we set that back in 1996. And it's really amazing what has happened since 1996. But this is a continuation of a long line of visions that were set, that were real stretch visions that in our view we achieved. And let me just remind you of those and we'll come back to the last vision.

But in 1985, right after the creation of Enron, the merger of Inter-North and Houston Natural Gas, the initial vision that was articulated was to become the premiere integrated natural gas company in North America. And I know for all of that were watching Enron--I guess it was called HNG Inter-North then on Inter-North HNG. Which way was it? HNG Inter-North. How quickly we forget.

For those of us who were watching the company then, that was a real stretch back in 1085 **[1985]**. But I think we would all agree that by 1990, after the system had been put together, after the companies were working together, after we created the merchant business to begin buying and selling natural gas around the country, that by 1990 we were clearly the premiere integrated natural gas company in North America. We had the best E&P company. We had the best pipeline network. We had some of the newest and best merchant activities for buying and selling natural gas, and by that time our market share edged out everybody else in the natural gas business. So by 1990 we were the premiere integrated natural gas company in North America.

About that time the vision was changed, and it was a much more expansive vision at that point, which was not only to think about it in terms of North America, not only to think about it as strictly as natural gas in North America, but to begin taking a much more broad global view of the marketplace. So the vision then was to create the world's first natural gas major. In those 5 years we saw an enormous extension of Enron's activities around the world. There were a number of new countries, new operating environments, but a huge expansion, so by 1995, if you looked at our total income that came from international versus domestic operations, I think the number edged 30 to 35 percent by 1995 from almost a zero in 1990. So a big global expansion, and in our view, that constituted becoming the world's first natural gas major.

Another change, the world's leading energy company. What was that? Well, first of all, we were expanding the definition beyond natural gas, because by 1993, 1994 we had started our electricity activities in North America, we had begun to extend those into Europe. And so at that point our aspiration was to become the world's leading energy company. Well, how have we done since we set that vision in 1995?

I'm going to show you a couple of charts which I think are pretty interesting. The first one is our market position in North America, so this is domestic energy markets. And it shows Enron versus everybody else. We've got two numbers for Enron. All of these numbers for the other players were third quarter number. We had the fourth quarter for Enron, so we showed the third quarter and the fourth quarter number. But in the last 5 years we have massively distanced ourselves from our competition. We are now more than twice as big as the next biggest player in the North American natural gas and electricity markets, twice as big.

If you look at it internationally and you start looking at what our total throughput, the number of electrons and molecules that we touch versus other leading energy companies, this is what the number looks like. This is worldwide. It compares Enron to primarily producers, traditional producers of gas and electricity around the world. These are the biggest energy companies in the world on this chart, and then you see Enron's market footprint, just enormous, enormous growth and enormous differentiation versus the other players.

So we have, I think, made a big dent in becoming the leading energy company in the--on the planet.

But in addition to getting bigger in energy, I want to show you something else here. We've also begun expanding, extending what we do beyond just energy. EBS was created in 1999. That's our broadband **[service]** business, a totally different market for Enron. EnronOnline was launched. EnronOnline is the platform that we're using not just in natural gas and electricity, we're using it in all commodities that Enron transacts in. We created in Europe EnronCredit.com to begin creating marketplaces for credit, almost a credit card for the B-to-B marketplace. Enron

Networks was formed to begin extending the business model to other commodities. We formed a new power company to provide direct retail sales of natural gas and electricity to residential consumers around the world, and we launched Enron Metals. We created Enron Global Markets and Enron Industrial Markets to begin extending beyond natural gas and electricity in the range of markets. And we launched ClickPaper.com to create markets for pulp and paper.

So in addition to really racking up gains, tremendous gains and successes in the energy business, we begin expanding beyond just energy. And today when we look at the market opportunity, it looks something like this. You take the wholesale gas and power business, the retail energy markets and broadband markets, and then start adding to it the market opportunities that Ken showed a little bit earlier in this presentation in these other commodities that we are targeting right now. The potential is enormous and the potential extends beyond just the energy business.

So to talk about thinking about this a little more broadly--and let me give you a couple of charts that display some broader statistics. We went back and looked at total sales of companies last year around North America, and this is what the chart looks like. Now the Fortune 500 has not been published yet, and there may be someone that we don't know about that might sneak into here, but if the numbers are what we think they are, this year we'll be the sixth largest company in North America, we'll be the Fortune number 6 company in terms of revenues at $101 billion. So if you look at that, GE is on one side at $130 billion--and by the way, we were running at a $40 billion a quarter clip in the fourth quarter, so we'll take GE this year if we just keep doing what we're doing so far and what we did in the fourth quarter. That edged out Royal Dutch. It edges out IBM, edges out Philip Morris, edges out CitiGroup. So just ahead of us, the targets ahead are GE, Ford, GM, Wal-Mart and Exxon Mobil.

If you take an even broader view, look at the whole world, these are the top 15 companies in the world in terms of revenues, so we are bracketed by Totale-L and Nippon Telephone. So a pretty good company to have. But behind us are NTT, Royal Dutch, AXO, which is a big insurance organization from France, IBM, Philip Morris.

Ahead of us, Totale, Toyota--we should pass Toyota this year--GE, BP Amoco, Daimler Chrysler Ford, GM, Wal-Mart, Exxon Mobil. **[Let me show you a couple of other interesting statistics.]** Of these top 15 companies in the world, here's the 5-year compounded revenue growth rate for those 15 companies. We were number one by a factor of almost four.

If you just look at North America and take all companies, not just the largest companies, but take all companies in the S&P 500, one of **[what are]** the fastest-growing companies in the S&P 500, we were number 3 behind AOL and Worldcom, ahead of Tyco, Qualcomm, Cisco, Dell.

PE ratios, so this is how the stock market is valuing us. Of the top 15 companies in the world, we're number 2 in PE ratio which says something about the expectations or the projections that our investors are making for the company.

[Tape change]

MR. SKILLING: Interesting statistic: of the top 15 companies in the world, total revenues per employee. Now, I don't want to focus too much on revenues because revenues are impacted by lots of things, impacted by the general price of energy and a lot of other things, but I think it gives you some indication of our reach. The company has become an enormous, enormous player in the markets that we're in, but not only in the markets that we're in, but relative to other companies in other industries, Enron is on the map today. We are clearly on the map. And so we looked at this and we thought about what we're doing as a company and the different markets that we're starting to work on, growth rates in our core markets.

And we went back and said we needed to think about the vision because the world's leading energy company is a great vision but does it really capture what we want to be in the future, our aspirations?

And so we got together and we sat down and we spent, what, Ken, two days?

MR. LAY: Two days.

MR. SKILLING: Two days in tough discussions about what the vision should be, and I would like to unveil it now. Do you want to untie it? Are you ready?

MR. LAY: If it's not too dangerous.

MR. SKILLING: It's supposed to be dangerous. You're supposed to stand 3 feet this way or you're going to get knocked down when the thing--

MR. LAY: Do we get the trumpets?

MR. SKILLING: Huh?

MR. LAY: Do we get the trumpets?

MR. SKILLING: Trumpets? Are there any trumpets? No trumpets.

MR. LAY: Is this at least 3 feet?

MR. SKILLING: That's at least 3 feet. Okay, ready? One, two, three.

How's this?

[Applause.]

MR. SKILLING: This is our vision. Now, this is the aspiration that we have and the top management group has for the company. We want to move from being the world's leading energy company to being generally recognized as the world's leading company. And I hope that 5 years from now, just like every 5 years for the last 15 years, we come back and we say, "We think we pulled it off." 5 years from now I think there's a good change **[chance]** we could be the leading company in the world. We'll certainly be of a size, I think we'll be of a market cap that could make us the leading company in the world, but we certainly have the talent and the organization to make it happen. So this is the vision and it's going to be--it's going to be a tough aspiration to live up to, but we intend to do it. We're going to be the world's leading company.

So I hope you all are with us on this. We think this is a great opportunity for the company, and it's a great time for the company. So this is it. Got to change my license plate from WLEC to WLC.

[Laughter.]

MR. SKILLING: Thanks.

[Applause.]

MR. SKILLING: So to summarize, the company's doing great. We're in great shape. We have a lot of challenges, as all companies do. We are moving in all of our markets to deal with those challenges and to create new opportunities. We've got a vision I think that's a vision for the next century, and with that, we'll open it to any questions. So you all have cards. If you have questions, you can anonymously write the question on the card. Just pass it to aisle ways and we will answer all of them if we can.

Okay. We had a couple submitted a little bit earlier, and so we're going to start with that. And the first one, and one that I really did want to address, relates to PRCs. And the question specifically asks: "How could a person drop two levels during a PRC process, from strong to having issues, when at no time during the review period was this person brought in, talked with and advised that their performance was dropping?" And there's a number of other issues that go along with that.

But let me talk for just a minute about the PRC process and what we're trying to accomplish. This year we extended the PRC process across the entire company. Historically or at least until this year, virtually all of the commercial organizations in Enron were on a PRC process, and then we extended that beyond it to all areas of the company this year. I was quite frankly a little surprised at how big an extension that was. I would have guessed that only about 15 to 20 percent of our employee population was not involved in a PRC process. I found out later it was 60 percent were not involved in a PRC process before. So we had a major, major undertaking to extend the process.

Why should we extend the process; why does it matter? I personally am convinced that the PRC process is the most important process that we conduct as a company. And let me see if I can explain why that is.

We have to move quickly. I absolutely guarantee you, if you see the stuff that comes across Ken's desk and my desk every day, we have got to move quickly because our markets are changing, our competitors are changing, things are moving very, very fast. As an organization we don't have the luxury that organizations had 25 years ago. 25 years ago you could put the things on autopilot and General Motors would, you know, they'd bend a little more metal into the wing tips and a little more chrome on the bumpers, but things didn't change that much. They could be pretty much on remote control, autopilot. That is not the world we live in today. I guarantee you, that is not the world we live in today.

We don't know at the beginning of the year what the challenges will be during that year. If you ask me today what will be the biggest things that we have to grapple with for the rest of this year, I'll give you a list of things that I think are the things we have to grapple with. I would guess that I'll be wrong on 50 percent of them, that there will either be 50 percent more on the list than what I would put down on a list today, or some large portion of those I put on the list don't matter. I mean that's how fast this thing is changing.

In the old environment we came up with ways of assessing performance, and they were typically vertical systems. I'm sorry for going on about this, but I think this is very, very important. They were typically vertical processes, that you were evaluated by your boss, your boss was evaluated by their boss, and so on, and so on and so forth up through the chain. The problem with that is when things are moving very, very quickly, if anyone in that chain doesn't get it, everyone below that person in the chain doesn't get it either.

And we saw this in the 1990s, early 1990s when we were trying to create the merchant business for Enron, a totally different business for the company. And of the say 10 people that reported to me, I would guess 4 got it, 4 kind of got it, and 2 didn't get it. And for the two that didn't get it, their organization units absolutely didn't get it. And the 4 that kind of got it, their organizations maybe did maybe didn't.

So what we did is we said we've got to change this because we don't have time to internally fight the battles to get people to move in the direction that we have to move as an organization. So we're going to cut it vertically rather than horizontally.

So the whole premise of the PRC process is you're making a vertical cut, and so all people who are vice presidents, all people who are directors, all people who are managers, all people who are associates and analysts and so on and so forth, are in a single bucket, and they are being evaluated by people who get it, which is the PRC. And Ken and I select the people that sit on those PRCs, but those are people that get it. And so when you're being evaluated by that group, you are getting direct communication from Ken and me about what the objectives of the company are and how you fit with those objectives, how you're doing against those objectives. So the first thing is vertical.

Now that does a number of things for us. First of all, it gets much better communication from us to you. The second thing it does is it makes it easier for you to move around the organization. You know we've talked about mobility. We are in the process right now of redeploying hundreds of people in the company out of businesses that we need to get people out of into new businesses. We couldn't do that without a vertical performance evaluation system, because when you move from one organizational unit to the other, your compensation doesn't change, your performance evaluation doesn't change. When we're sending information to the receiving organization about who you are and what you're good at and all the rest of that, they know they can trust the data. It makes it much, much easier to move people around the organization. That is important for you. That's important for us.

So conceptually it's important to have that vertical cut.

Now a couple other things that it does. It reduces for all people the likelihood that you're not going to get feedback in the process. And I know we're not great at feedback and I'll tell you what some of the holes are and problems are that we need to fix in a minute, but one of the challenges we were trying to deal with is in 1990 with the old performance evaluation system, 96 percent of the employees in the company received and outstanding performance evaluation, 96 percent.

And in that kind of environment, I guarantee 96 percent of the people were not performing for the shareholders at exactly the same level. They weren't, just (?), because people just didn't want to communicate. So we said, no, what we have to do is we have to start identifying people who are our very top candidates to ensure that they're well taken care of because they're creating value for all of us and for the shareholders, and we also have to identify those people who are on the edge, so that they can be communicated with so they have a chance to change their performance.

So we set up a system where we had a preferred distribution so that 96 percent wouldn't work any more.

It's much easier, I guarantee you, and we all know this, much easier to go into a performance review and tell the person you're talking to that you're doing great. It's a whole lot easier than telling them the truth.

And in fact it was kind of interesting and it was one of these employee meetings in 1993. We set it up to where if you were in the lowest performance category you didn't get a bonus. Those were the only people that didn't get bonuses.

By the way, in the old days, I think only about 10 or 15 percent of the employees got bonuses. And what we did is we changed that. We said everybody is eligible for a bonus, and the only people who will not get a bonus are people who are in the lowest performance category. And the reason for that was communication. If you didn't get a bonus, you knew there was an issue.

And I was in an employee meeting like this in 1992, and I got an anonymous question. The anonymous question said something like this. It said, "My boss told me they ran out of bonus money just before they got to me."

[Laughter.]

MR. SKILLING: "How can this happen?" And you know, it's a whole lot easier in that kind of an environment where you're saying, "No, I don't think your boss was being straight with you. If you did not get a bonus, there is an issue, and you ought to go in there and grab the person by the lapels, and shake them and say, "Tell me what's going on."" So we tried to improve communication. So that was the purpose of the PRCs.

Now, there are a couple of problems with the PRCs, and let me go through them. One problem is people say, "They don't **[know]** me. They've got a committee of people and half the people on the committee don't know me." Well, yeah, that's true, and in fact that's the way we planned it, because we expected that some people really would know you. You have an evaluator and it's their job--we'll come back to this in just a minute--it's their job to make your case to the committee. There are also people that are sitting in the room that know you and can help triangulate, make sure that you're treated fairly by the process. And then there are also people that don't know you, and they're not falling asleep while the discussion's going on, they're listening.

So that when people say, "I think that this person did this, this and this, therefore, they're outstanding," the other people in the room may not know you and they may say, "Gee, I don't know this person but this, this and this, to me is not outstanding for the following reasons. We as a company are trying to accomplish something different," or maybe that person beats up on people, bad manager, and yeah, maybe they're making a lot of money for the company, but I don't think that's what's most important. There are other factors that really make a difference. So the people who don't know you are there to provide a perspective from the organization about what we're trying to accomplish. So one complaint is "People don't know me." Yeah, that's true.

Another complaint is, "The people that do know me don't do a very good job presenting my case." That is a problem. We talked to a number of the PRCs. They have an absolute responsibility to you as an employee to make sure that your case is made to the PRC. If that is not happening, let us know. And we're going to start a process where we actually provide all employees with the ability to give feedback on how well their evaluator or their champion in the committees did for them, and if we start getting a lot of complaints about people, we'll kind **[kick]** them off the committee. It is up to them to ensure that the staff work is done so that they can present your case well.

Now, the other thing we did as a fall back to make sure that it was fair is we do it twice a year. Now, we really don't have to do it twice a year. We only have to do it once a year because that's compensation time. But we do it twice a year in the summer and at the end of the year, so that when you get your review in the summer, if you've got a problem with it, you've got six months to get it fixed. So in the summer review, when they come back to you and they say, "Well, this is what--the feedback that we're giving to you," and you say, "No, no, you misunderstand. It's wrong, you've got it wrong." You've got six months to get it fixed before it's for real. So we do it twice so that you can give the feedback to the people and the process if you think it's unfair and get it fixed, if you want to get something fixed.

Another problem that people talk about is they say that the preferred distribution is not fair. We have got to have a preferred distribution. Now I will tell you that we attach descriptors to the preferred distribution, like "satisfactory", "strong." That's a mistake. Those descriptors maybe have nothing to do with where you rank. What we need to know and what you need to know is how you're doing relative to everybody else in your class, because that's what sets compensation. Someone has to do that so we can determine what compensation is.

In the future I think what we'll probably do is we'll just be looking at the top categories and the bottom, top categories to make sure that people get adequately compensated and recognized for unique contributions, and bottom categories so that we can communicate to people and let them know that there's an issue, so they have time to fix it.

And in the middle, we're going to have to come up with some ranking for compensation purposes, but we may not use a preferred distribution for it.

But the preferred distribution, I will tell you is flexible. I think there are some new PRCs and new areas around the company where they didn't think it was flexible.

It is flexible. If it doesn't work, it doesn't make sense, we don't use it. But it gives us a starting point, which forces some discrimination, some rationalization of performance. And we need that for compensation purposes. We have to have it.

But anyway, I think in general the process is necessary. It is probably the most important thing that makes Enron what it is today. We are not executing as well as we need to and we're going to make a number of changes to make it work better, but we are not going to eliminate that process, because if we eliminate that process, we can kiss this vision goodbye because we are not going to make it. We have got to manage our people, our human resource better than our competitors or we're not going to succeed. And this process is the key area for doing that.

I encourage all of you to get more involved in the process. If it's not working for you, if you don't like it, if there's something wrong with it, let us know. We are very flexible. We'll see what we can do to modify things and make them work better so they work better for you. But the process is important.

So anyway, I'll get off my high horse now, among other things. Ken?

MR. LAY: You know, I've been waiting 15 years to see if Jeff would make even a small mistake, and I think he did this morning. And in the interest of making sure you understood everything he said, I think if you take something that's vertical and you lay it down--

[Laughter.]

MR. LAY: Well, and of course, you got to fix up on this horizontal and put it on its bottom or its top, then I think everything he said you will understand.

[Laughter.]

MR. LAY: That was good though, Jeff. And--well, the whole thing. But this is, this is the core of what we are as a company. You cannot have a meritocracy unless you got a performance review process, and a very, very disciplined performance review process. And we talk all the time about having a meritocracy here, and certainly we're not perfect in that, but if you don't have a good performance review process, you don't even have a shot at it. And an awful lot of our success, I might say most all of our success over the last 15 years, has been trying to do a good job of evaluating our people, getting the very best people we can to start off with, getting the very best people, evaluating them annually or even biannually, turning them loose and letting them do a lot of creative things and create a lot of wealth for our shareholders, and that obviously has happened as we've gone through three very mind-expanding visions, and I think that will happen as we move in to our fourth mind-expanding vision.

I will just make one final point. I do think, as Jeff said, a lot of the problems this past year is because we did extend the performance review process to a lot of new groups that had not gone through it before, and of course, I read the article in "The Chronicle" also, but "The Chronicle" made it sounds as though, well, this is only used in one other piece of Enron's business. That other piece they're talking about is the wholesale business, which in fact generated $2.3 billion of earnings before income and taxes last year, a business that we didn't start until a little over 10 years ago, and it has been applied there for all of those 10 years or 11 years or 12 years.

So indeed, it is not a flawed system. It's a system that has worked remarkably well in our biggest single profit center that continues to grow very rapidly even today. So it's more a matter of how we apply it, and how we report on it, both at the performance review committee level, but also back to the employees. And obviously we've got a lot of improvement that we need to do there. And I think that what Jeff **[said]** is we're committed to do that.

Now, we really have more questions as we go along here, from both my explanation and Jeff's explanation, and maybe even on vertical and horizontal or something. I don't know.

[Laughter.]

MR. LAY: "As Enron evolves into a technology and intellectually-based company, we emphasize that Enron's true assets are its people," which we all have been talking about.

"Thus, why does Enron Broadband Services continue to fire and encourage its most talented smart people to resign? It is understandable if a market does not accept our offering to date, though why should we sacrifice good, productive people rather than redeploy them, especially if we tout how important our people are?"

Well, let me say first and foremost, if in fact the business environment, the business model causes some groups to be shrunk, to reduce the size of the work force, and our first and highest priority is to redeploy those people, if those people are really top performers, really good solid performers. And let me say we've done a lot of that just over the last two or three, four months, both out of some of the international groups, particularly Central and South America, but other groups too, and we did quite a bit of that or some of that at least out of Enron Broadband Services. I don't know the exact numbers. Probably Cindy does here in the front row.

But you have to keep in mind also as we grow very rapidly, and particularly creating new businesses and bringing a lot of people in from outside the company and from other companies and other industries, we're not perfect there either, and sometimes people that look very, very good, when we bring them in just do not perform up to the level that we're accustomed to people performing at Enron.

And so there will be some of that.

But again, like I say, our first and foremost priority is to always make sure that our very best, our very strong-performing people in fact stay with the company. We try to find another position for them.

MR. SKILLING: This one addresses the "Fortune Magazine" article. There's a "Fortune Magazine" article that's out--I think it started coming out yesterday, that the headline is: "Is Enron Stock Overvalued?" The gist of the article is that Enron is sort of a black box which--sorry, it's true. I mean it's just difficult for us to show people the specifics of how money flows through particularly the wholesale business. But the article's point is that it's a black box, and for a black box, should you be getting a 50 multiple of last year's earnings.

And they also note a couple of other things. They pointed out the return on equity problem that we have, a general return on assets.

The question here is: "Will our options ever get back in the money?"

[Laughter.]

MR. SKILLING: "And where will you focus efforts to improve the situation, and what can we do to help?"

Let me give you my take on the analysis. The entire reason that this analysis was done by "Fortune Magazine" is because "Business Week" had a favorable article about Enron the week before. And there is this competition that the news magazines have, where if one says something good, the other has to come and find something bad. So I think that was kind of the genesis of it.

In terms of the black box, yes, it is a black box, but it's a black box that's growing in the wholesale business by about 50 percent a year in volumes at profitability. That's a good black box. And we've been absolutely up front with the analysts, and we've said, "Look, the only thing we can track that seems to follow the earnings is volume growth. So just watch the volume growth. Assume a margin per unit of volume, and that's what the number is going to look like." And I think our analysts are pretty comfortable with that after a decade.

So the criticism I think is kind of ridiculous. Now, are we over valued at a 50 PE? There's been a big change in the stock market in the last year, and what that big change is, if you went back and you plotted--I'm going to probably screw up horizontal and vertical here again.

[Laughter.]

MR. SKILLING: If you went back and plotted the PE ratios for the top 500 companies, for the S&P 500 companies, and you put them in order from the highest PE to the lowest, you would have seen it as a very, very steep graph a year ago. You had a number of companies that had very, very low PEs, and you had a number of companies with enormous PEs. And it was kind of a straight line that was very steep.

What's happened in the last year is that partially vertical/partially horizontal curve--

[Laughter.]

MR. SKILLING: --has become much, much more horizontal. I get it.

[Laughter.]

MR. SKILLING: But it really has flattened out. And what's happened is the companies that had real low PE ratios, they've gotten higher, and almost everybody with a high PE ratio has gotten their heads ripped off. I mean it's absolutely come down, with the exception of Enron. There are almost no companies left that have a PE ratio over 40 right now, except for Enron. And there are a couple, and for a number of them, the only reason they've got a high PE ratio is because their earnings are collapsing right now, and the stock price hasn't fallen as quickly as earnings have fallen.

So we're in a little bit of rarified atmosphere right now, and that's why people will take pot shots at us, because the PE ratio is high. I personally believe that the PE ratio is justified because we're growing very quickly in earnings and revenues, and we have the strongest market position in every market that we're in. But it is going to take a little while to get that across, and I think we can expect these kind of articles to come out over the next couple of months, because we really are the only ones left with this high PE ratio. I personally think it's justified, and I think the stock price will start responding, because as we said in our objectives and focus for this year, we're focusing on E, on earnings, and I think we're going to have a great year this year, and I think that's going to push the stock price up.

So will the options get back in the money? Our view is absolutely. And when we talk about becoming the world's leading company, the target I think we all ought to have in mind is how do we become the company with the highest market value of any company in the world? And the biggest company, the number on company today is General Electric. It's about $400 billion. We're at about 70. That's the target. And if we accomplish that target over the next 5 years, yes, those options absolutely will be in the money big time. And that's our objective and that's what we'll be working for.

MR. LAY: "At what price do you expect the stock to split?" A question we usually get.

First of all, we have not set a target for the stock to split, but for those that may not know, I mean right now we have over 800 million shares outstanding. We're authorized by the shareholders to issue up to 1.3 billion I believe it is, or some such number. So unless we did something like a 5 for 4 or some other kind of a stock split, we would not even the shares to do that today without going back out to shareholders for shareholder approval, which we are going to do as part of the regular proxy and annual meeting process coming up in May.

So we will then have the authority to extend or expand the number of authorized shares outstanding, so we then can entertain a stock split. But as we've said many times, that should not have a significant impact on valuation of the company. You've got twice as many shares that are usually worth half as much, but it does in fact make the shares more affordable, particularly at the retail level. So certainly at some point, it's something that we will again look at very seriously, but it will be sometime after the May board meeting.

Second question, same person. "Has Enron considered supporting a"--I suppose that's "9-day 80-hour work schedule. If it's up to the discretion of each manager, do they feel that they have support from upper management?"

We give each group, each manager a lot of discretion as to how they have in fact put together their work schedule. I mean we do have, for good and obvious reasons, the things like gas control, some 4 and 10-hour a day type arrangements. We have others, I guess maybe 12 and 12 in a few cases. We do have some groups that work more hours and take out maybe a half a day a week or so, but again, as long as the jobs get done and get done very effectively and efficiently, we give individual supervisors, and particularly groups a lot of discretion in how they in fact conduct their business to maximize the productivity of their people.

MR. SKILLING: I'll try to go through a couple here real quickly. "Why were we not permitted to upgrade to state-of-the-art in the Click-at-Home program?" And the question is, maximum upgrade to Pentium IIIs. Were we not allowed to do that?

MS.   : Well, they can. They just have to pay [inaudible] upgrade.

MR. SKILLING: Oh, you have to pay the incremental upgrade.

MS.   : Yes.

MR. SKILLING: So we're coming up with a mediocre standard, right?

[Laughter.]

MR. SKILLING: And then we're telling everyone you have to pay to get up to--

MS.   : No. Pentium IV, we're offering a Pentium IV.

MR. SKILLING: Oh, we're offering a Pentium IV. Okay.

MS.   : Not--it's not a low-grade computer.

MR. SKILLING: Okay. It's not a low-grade computer. I guess if you want to add to it, I guess you just have to add some more, but it's a good one, and we're starting off with a good one.

MS.   : It's a good computer. It's a [inaudible].

MR. SKILLING: And Dell's giving a discount for upgrades. Okay, great.

"Would you please break down the value of each franchise, each segment of the business?" The pipelines are worth about $7 a share. The wholesale business is worth about 45 to $50 a share. Retail probably about 20 to $25 a share. And broadband probably around 15 right now. So what is that up to? That's 7 plus--52 plus--

MR. LAY: Is that vertical or horizontal?

MR. SKILLING: This is vertical. This is vertical.

MR. LAY: Vertical adding.

MR. SKILLING: That gets you up to about $80, so [inaudible], that's where-- about 7, 45, 20 to 25 and 15 for the broadband business.

"A major hit to Enron's ROE has been the $100 million plus mistakes: J. Block, MTBE, steel investments, Azurix, EBS, Sun servers."

Well, actually the numbers--J. Block cost us about 600 million. MTBE cost us about 600 million. The steel investments were probably about 50 million. Azurix was a little over a billion. The Sun servers was only about 20 million. So that was not a real biggie, but--

[Laughter.]

MR. SKILLING: And we got a couple of more floating around out there.

[Laughter.]

MR. SKILLING: It's a great question. I guess my view is that we're going to have to make mistakes. I mean you're not successful if you don't make some mistakes, and the key is to have a good batting average, so we want to do things to get the batting average up, which means staying close to the businesses that we're in, focusing on something we know we have a competitive advantage on.

But then the other side, which is something I would like all of you to think about, is when you look at the really biggies that we blew in the past, it's because we put enormous bets out on the table. We put big, big bets on something that was relatively new for the company, and it didn't turn out right. We've got to find ways that we can experiment at lower cost with less capital on the table. And that's why we've been talking about this return on invested capital, reduce the amount of capital that we have in the business, because we need to have more experiments with less exposure per experiment, because the experiments you need to do to get ahead, just can't afford to put as much on each of those experiments in the future, and we're trying very hard to do that.

MR. LAY: I guess on the stock value, since the question's come up a couple ways this morning. Going back to the visions. Started our first vision early '86. Market cap for the total company was about $2 billion. Started our second vision, started 1990, it was $3 billion. Started our next vision, 1995, 9 billion. And of course today, even with the sell off, about 60 billion. So 30-fold in about 15 years. As I told Jeff the other evening, if we go 30-fold again, that's about 1.8 trillion. And then for damn sure we're the number one leading company in the world.

[Laughter.]

MR. LAY: Nobody will dispute it. And I think Jeff, at the analyst's meeting, came up with a valuation for the stock of about $128?

MR. SKILLING: 126.

MR. LAY: $126. So just so you kind of keep in mind what we think the potential this business model and this company have.

I've got two questions that I think are somewhat related to each other. "What is the status of our project in India? I understand DeBow (ph) **[Dabhol]** Power Company has had trouble getting paid, and there is renewed opposition to our project. Is Enron's project in jeopardy?" That's India.

Second question. "Would you please update us on the California situation and explain Enron's position?" And there is a lot of similarity because in both cases the consumers want the electricity, but they're not willing to pay for it. But indeed in India you have a situation where Maharaster (ph), their state electric board, in fact doesn't get paid for about 30 percent of electricity that they deliver to consumers, and thus they have cash flow problems paying us for the power that we sell them for them to distribute.

And more recently the State Government, at least in one cycle, came in and provided additional support, and then the next cycle decided not to provide that support, which meant that we could pull--or had to pull the guarantee at the federal level. And when we did that, the federal level in Delhi, they paid us the deficiency, and then turned right around and took it out of their payments to Maharaster. So things work in kind of weird ways over there sometime, but we are getting paid.

Now, there is still a longer term problem there from the standpoint of the Phase 2 coming onstream, which is twice as big, and the L&G facility. Now the good news about that is, to the extent that they will take power from that plant at the contract load factor or expected load factor, in fact, the cost of power comes down. Now that still doesn't address the problem of whether they're going to still give away or lose about a third of their electricity without getting any payment for it.

So I expect, as I think Jeff put it at the analyst meeting, you're going to hear a lot more noise about India, but indeed--and some of it will come out of India, some of it will be generated here by analysts and others, but at the end of the day we have really strong contracts, we have, still have arbitration rights, we have both guarantees at the state level and guarantees at the federal level. And it is a good efficient plant. And India is very short of electricity. Where they had intended--they will only achieve about 20 percent of their goal as far as new capacity coming onstream over the last three or four, five years. So they're very short of electricity, and you'd think in that environment, they'd figure out some way to work that problem out.

California, I think we should hit California a little bit because you're asked about that a lot. First of all, what happened in California 4 years ago and 3 years ago and 2 years ago and now, is not deregulation. The way they designed the system--and we opposed it 4 years ago, we've been opposing it since then--but they set the system up so in fact the prices to consumers were fixed, reduced and fixed. They were fixed in such a way that competitors could not even have access to those customers to provide them choice, and to of course create competition. I mean the model was set up to keep competition and consumer choice out of the equation except for some of the larger customers. And of course, EES has been successful in providing energy outsourcing for the larger customers.

But at the same time that the residential rates or the retail rates were fixed, the wholesale market of course was deregulated across the nation, but they then did set up a PX, a pool so that all sales into the state and all purchases of wholesale electricity in the state had to come through that PX. So we basically eliminated the three big monopolists and created one big monopolist. And then finally, the regulatory scheme out there--and I think the utilities acquiesced in this because they thought it was the right decision also--but required the utilities to purchase their wholesale electricity on the spot or the day-ahead market. So indeed they're buying all of their wholesale electricity spot, and they're selling, of course, their electricity on a fixed longer term market. And that worked fine as long as there's excess supplies, but once those disappeared and we had a shortage, not just in California, but the west, well, then indeed prices jumped up enormously, the utilities were not allowed to pass that through to the consumers. They very quickly accumulated now 12 or $13 billion of payments they've made to buy the electricity which they can't recover, so they're on the edge of bankruptcy.

Our view--I want to say weather factors including a very low hydro year because of low rainfall and snow in the northwest and northern California further aggravated that problem, and they didn't have control over that, but they set up a system that was doomed to failure at the beginning. Our appraisal or our estimation is that they're going to have a really, really tough summer, much tougher than they're talking about. I mean it could be almost catastrophic from the standpoint of electricity shortages and blackouts, particularly in a very sophisticated economy. And like I say, it's not just California any longer. Now that they've pooled heavier on hydro during the winter, they're going to have less hydro for the whole west during the summer. And so now the problem, the crisis has spread to all of the western part of the country. And thus far the political leaders are more inclined to try to buy the transmission lines, and maybe in fact buy some of the power plants, build power plants, but kind of state-ize or nationalize or centrally control the electricity business, versus really trying to finally break open the system and make it competitive. And obviously we are opposed to most of that.

Now we'll try to work with them and help them where we can, but indeed, we think they ought to be trying to make the system work effectively with competition and with markets and not with the state just taking control of everything.

So its going to be a very interesting thing to watch for quite some time, and particularly through this summer.

MR. SKILLING: A couple quick ones. "Does the recent downturn in the broadband market represent an opportunity for Enron to acquire strategic companies at attractive prices?"

Yes, we're looking very hard at the markets today. The downturn I think will give us some tremendous opportunities, so we're looking at that very hard.

"How many lawsuits are we involved in that relate to California, and what's the total exposure?"

I don't have the last count, but there are quite a few.

MR. LAY: Quite a few.

MR. SKILLING: Quite a few. Total exposure, to be quite honest, we don't think there will be any exposure. This is typical. You know, something big like this happens, you just get a lot of people that start suing whoever they can find, and I think they're pretty much baseless, and so I don't think we'll have any exposure. It will take a lot of time and energy, but I don't think there will be a problem.

"What is the future for engineering construction?"

That's a good question. We're in the process right now of redeploying people from EE and CC. The fact is that we have not found it economic to build a whole bunch of power plants all over the world. The numbers just aren't working out, so we're going to have to reduce the amount of construction.

Now, at the same time we have some enormous opportunities related to engineering and design activities in our retail business, which is why we moved EES into retail. For each contract we sign, each outsourcing contract we sign, we have to deploy engineers and we have to begin redesigning infrastructure in the companies that we're outsourcing energy for. So I think there's an enormous opportunity for engineering and construction activities in EES. There will be declining need for engineering and construction activities in these big power plant projects, international power plant projects. So the trick now is we have to deploy people, redeploy people from one side into the other side to hang onto the talent.

MR. LAY: I think it is about 11:30. So I think we probably ought to go ahead and wrap it up. Obviously, we didn't get through all the questions.

This morning, I guess, ES **[EES]** announced that they signed an energy outsource contract with Quaker Oats. How big is that contract?

MR.   : [Inaudible]

MR. LAY: About 400 million. He doesn't know any more. He's out of there. Is that right, Dan, about--Dan [inaudible], it was $400 million. But a very significant contract as far as the quality of the company and some other opportunities that may come out of that, but apparently they have provided all kinds of goody stuff outside there. As you leave today, you get to take home some of Quaker Oats best products.

But again, our success comes down to our people, and that's all of you out there across the world. We've rolled out a new vision this morning which Jeff and I are very excited about, and indeed each and every time that we've put another vision out that seems pretty awesome, we achieve it much quicker than anybody ever thought. And I think the same will be true here.

As Jeff said earlier--so let me put my two bits in--I've never seen the company stronger. I've never seen it better positioned. I've never seen it with more opportunities, and certainly never seen it with better people, better employees than we have today. And with all of that, we will become the world's leading company.

Have a good day.

[Applause.]

- - -